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Recommendations of the Board of Auditors

UNITED NATIONS POPULATION FUND

FOLLOW-UP TO THE REPORT OF THE UNITED NATIONS BOARD OF AUDITORS FOR 2002-2003: STATUS OF IMPLEMENTATION OF RECOMMENDATIONS

Report of the Executive Director

1. Pursuant to decision 97/2 of the Executive Board, the Executive Director wishes to bring to the attention of the Board a progress report on the implementation of the recommendations of the United Nations Board of Auditors for UNFPA for the biennium that ended 31 December 2003 (A/59/5/Add.7). In document A/59/400, the Advisory Committee on Administrative and Budgetary Questions reviewed the report of the Board of Auditors and the corresponding report of the Secretary General (A/59/318/Add.1).

2. The present document provides an update of further actions taken by UNFPA to follow-up on the recommendations of the Board of Auditors as contained in document A/59/5/Add.7, noted above. The paragraphs cited in the annex of the present document correspond to those contained in document A/59/5/Add.7. UNFPA also addressed audit issues in the annual report on internal audit and oversight activities in 2003 (DP/FPA/2004/6), submitted to the annual session 2004 of the Executive Board.

Recommendation

3. The Executive Board may wish to take note of the further actions taken or planned in implementing the recommendations of the United Nations Board of Auditors for the biennium 2002-2003, as contained in the annex to the present document (DP/FPA/2005/1).

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Annex

Recommendations of the United Nations Board of Auditors in its report on the accounts of UNFPA for the financial period that ended 31 December 2003

1. In paragraph 33, UNFPA agreed with the Board's recommendation to: (a) consider the disclosure of information in terms of best governance principles relating to oversight, performance reporting, social accounting issues, risk management, continuity and internal control issues. In this regard, UNFPA should revert to paragraph 6 of General Assembly resolution 57/278, in which the General Assembly requested the Secretary-General and the executive heads of the funds and programmes of the United Nations to examine governance structures, principles and accountability throughout the United Nations system, since better disclosure would be a step towards taking a proactive approach to the review requested by the Assembly; (b) consider further improvements to the presentation and disclosure of financial statements; and (c) disseminate improvements made at other United Nations organizations through inter-agency mechanisms such as the High-Level Committee on Management.

UNFPA will continue to review the presentation of the 2004/2005 biennial financial statements to determine where compliance with General Assembly resolution A/RES.57/278, with regard to governance structures, principles and accountability, might be improved. UNFPA will include information in the financial statements, wherever feasible and cost effective, in the areas noted in the recommendation. Moreover, UNFPA reviews the presentation of its financial statement each biennium to determine where improvements in presentation and disclosure may be made. UNFPA also participates in the High-Level Committee on Management discussions in this area and will fully implement the recommendations made by the Committee.

2. In paragraph 42, UNFPA agreed with the Board's recommendation to: (a) conclude its reconciliation of the non-expendable equipment as a matter of urgency in order to ensure that opening balances entered into the Atlas system are correct; and (b) implement controls to ensure that the respective units verify the equipment in their possession on a regular basis, which should then be reconciled with the completed inventory listing.

In June and October 2004, UNFPA headquarters undertook a one hundred per cent physical asset inventory. The physical count has been reconciled with the asset management database. The implementation of the Atlas asset management system has been delayed until the end of 2004. When this system is functional, the reconciled asset balances for UNFPA will be entered. UNFPA has issued revised guidelines concerning asset management. Staff validation of non-expendable equipment assigned to individuals will be undertaken as part of the year-end closing.

3. In paragraph 51, UNFPA agreed with the Board's recommendation that it take action immediately to ensure the accuracy, completeness and proper control of non-expendable equipment in compliance with its directives.

As part of the instructions for closing the accounts at the end of 2004, country offices will be reminded that all projects funded by UNFPA must report the value of all non-

expendable equipment related to those projects. When available, these balances will be entered into Atlas.

4. **In paragraph 57, the Board recommended that UNFPA, in conjunction with other organizations in the United Nations system: (a) investigate unreconciled balances with a view to resolving this expeditiously; and (b) develop procedures to resolve future inter-agency balances in a timely manner.**

As of 30 September 2004, UNFPA completed the reconciliation of balances due to/due from agencies in accordance with UNFPA financial accounts and the financial reports submitted as of 31 December 2003. By December 2004, UNFPA will complete the accounting adjustments related to the reconciliation of differences identified agency-by-agency, in consultation with the concerned agencies. UNFPA has contacted the responsible officers at each of the United Nations agencies with whom UNFPA works and informed them of the changes in the UNFPA financial accounting system and the corresponding procedures.

5. **In paragraph 62, the Board reiterated its recommendation that UNFPA, in conjunction with the Administration of the United Nations and of other funds and programmes, review the funding mechanism for its liability for end-of-service and post-retirement benefits.**

UNFPA will continue to work with the United Nations and other funds and programmes to review the funding mechanism for its liability for end-of-service and post-retirement benefits. In October 2003, UNFPA communicated to UNDP its agreement to participate in a jointly funded consultancy to recommend a funding methodology and policy. The primary activity in 2004 is to ensure that the consultancy takes place and that all information requirements are met.

6. **In paragraph 66, the Board recommended that UNFPA continue to closely monitor hedging transactions and obtain adequate information from UNDP in a timely manner, in order to ensure proper accounting of transactions.**

UNFPA has completed action on this recommendation.

7. **In paragraph 71, the Board recommended that UNFPA implement procedures to prevent the pre-financing of projects.**

UNFPA has completed action on this recommendation.

8. **In paragraph 74, UNFPA agreed with the Board's recommendation to implement a formal debt collection policy to facilitate the effective monitoring and recovery of outstanding receivables.**

UNFPA is developing a debt collection policy and will ensure that it is put into practice during 2005.

9. **In paragraph 83, UNFPA agreed with the Board's recommendation to intensify its efforts to implement the age analysis using the Atlas system in order to better monitor funds advanced to implementing partners.**

In conjunction with its Atlas partners and the PeopleSoft experts, UNFPA continues to review options to design and develop an ageing report for funds advanced to implementing partners. UNFPA is committed to issuing an ageing report on a quarterly basis by December 2004.

10. **In paragraph 87, the Board reiterated its recommendation and UNFPA agreed to: (a) include in its monitoring tools details of the appointment of auditors of nationally executed expenditures; and (b) use such details to verify compliance with the criteria set forth in its Policies and Procedures Financial Manual.**

The Audit Services Branch, Division for Oversight Services, requested country offices to submit the missing information; approximately 75 per cent responded with the requisite information for 2003. The Audit Services Branch has requested country offices to submit this information by 31 October 2004, as part of their 2004 audit plans.

11. **In paragraph 91, UNFPA agreed with the Board's recommendation to: (a) expedite finalization of its draft guidance on appointment of project auditors; (b) communicate these guidelines to the country office; and (c) monitor compliance with the directives.**

The United Nations Development Group (UNDG) inter-agency audit task group, of which UNFPA is a member, will prepare a technical note on the appointment of project auditors. The Audit Services Branch will then communicate these guidelines to the country offices and monitor them for compliance.

12. **In paragraph 97, the Board reiterated its previous recommendation that UNFPA: (a) ensure that standard terms of reference are agreed by the country office and government implementing partners and the auditor of nationally executed expenditure; (b) ensure that the scope and format of the audit is consistent; and (c) compile a mandatory checklist of the standard requirements to assist country offices in adhering to the requirements of the UNFPA Policies and Procedures Financial Manual.**

The UNDG inter-agency audit task group, of which UNFPA is a member, will develop a technical note on the terms of reference for the conduct of audits. The Audit Services Branch will then communicate these guidelines to country offices. By the end of 2004, the Audit Services Branch will develop a checklist of the standard requirements in order to assist country offices in monitoring compliance with the requirements.

13. **In paragraph 102, the Board reiterated its previous recommendation and UNFPA agreed to continue to devote special attention to those country offices that had not submitted their audit plans in time by requesting them to commence with the planning exercise well in advance of the prescribed deadline.**

The Audit Services Branch sends reminders to those countries that have not submitted audit plans on time or whose plans were not in compliance with UNFPA requirements. For the 2003 audits, 99 per cent of the audit plans were received by March 2004. For the 2004 audits, the Audit Services Branch forwarded the request for audit plans earlier than in the previous year in order to give country offices sufficient time to prepare their audit plans, due on 31 October 2004.

14. **In paragraph 107, the Board recommended that UNFPA continue to follow up on country offices that fail to comply with the organization's directives on the audit of projects.**

The Audit Services Branch sends reminders regularly and has enlisted the assistance of UNFPA geographical divisions to obtain outstanding project audit reports. Compliance by country offices with national execution and NGO audit requirements is reflected in the annual performance evaluation of UNFPA Representatives. As of October 2004, 86 per cent of the expenditure for 2003 had been audited.

15. **In paragraph 112, the Board reiterated its previous recommendation that UNFPA include in a consolidated database all country office action plans relating to the audit reports on nationally executed expenditure. UNFPA should also evaluate the possibility of using the comprehensive audit and recommendation database system to monitor the status of implementation of audit recommendations in respect of nationally executed projects.**

The Audit Services Branch maintains a database that captures the receipt of action plans. UNFPA and UNDP are reviewing the possibility of utilizing the web-based comprehensive audit and recommendation database system (CARDS), accessible to country offices, to monitor the implementation of audit recommendations in respect of nationally executed projects.

16. **In paragraph 117, the Board reiterated its recommendation that UNFPA quantify the financial effect of audit qualifications made in respect of nationally executed expenditure and continue to evaluate such qualifications against action plans for reasonableness.**

For the 2004 audit, which takes place in 2005, country offices will be requested to review action plans to ensure that they adequately address audit qualifications that focus on material issues. The addition of operations managers in 44 country offices is expected to strengthen the capacity of the offices to carry out such analyses.

17. **In paragraph 123, UNFPA agreed with the Board's recommendation to continue its efforts in developing a risk-based database.**

The Audit Services Branch has initiated the development of a risk-based database.

18. **In paragraph 128, UNFPA agreed with the Board's recommendation to continue its efforts to obtain and record particulars of actual audit costs for all audits of nationally executed projects.**

The Audit Services Branch has continued its efforts to obtain and record particulars of actual audit costs for nationally executed projects. For the 2003 audit plans, 95 per cent of the countries submitted information on estimated costs. As of October 2004, 58 per cent of country offices had submitted actual cost information for 2003. The Audit Services Branch sends reminders to those countries that have not submitted actual cost information. For the 2004 audits, the Audit Services Branch has requested country offices to submit details of the audit costs as part of the 2004 audit plan information.

19. **In paragraph 131, the Board encouraged UNFPA to further improve its ICT strategy and have this approved at the earliest possible opportunity.**

UNFPA has prepared an ICT strategy for presentation to senior management.

20. **In paragraph 136, UNFPA agreed with the Board's recommendation that UNFPA's internal audit should verify the validity and accuracy of journals posted as a result of the data cleaning exercise.**

The Audit Services Branch will review and verify the data during the first quarter of 2005.

21. **In paragraph 138, UNFPA agreed with the Board's recommendation to identify all changes in the Atlas system since the previous training and provide updated training to users.**

In addition to communicating changes in Atlas through guidelines, how-to information and quick tips, UNFPA offers web-based training on a continuous basis to groups of staff in country offices. Furthermore, UNFPA provided training to operations managers to strengthen country office capacity.

22. **In paragraph 143, UNFPA agreed with the Board's recommendation, in consultation with UNDP and UNOPS, to establish service level agreements with the service centres, identifying minimum standard requirements regarding the number of cases handled and establishing the time used to resolve problem cases.**

UNFPA has drafted and presented memorandums of understanding to UNDP that include proposed service level agreements for help-desk issues.

23. **In paragraph 146, the Board recommended that UNFPA, in conjunction with UNDP, expand its contingency measures to ensure the ability to continue to provide information system processing capabilities.**

The current contingency plan (disaster recovery) of UNFPA and other partner agencies ensures less than four hours of data loss, restoration of minimum access in 24 hours and full restoration of service in 72 hours.

24. **In paragraph 152, UNFPA agreed with the Board's recommendation, in conjunction with UNDP and UNOPS, to initiate an independent comprehensive post-implementation evaluation of the set-up and effectiveness of the built-in internal controls for the Atlas system as soon as possible.**

UNFPA and its partner agencies are addressing the recommendations contained in the UNDP internal control review report as well as the recommendations of the United Nations Board of Auditors. An interagency working group on the Atlas internal control framework, of which UNFPA is a member, has been constituted to review these recommendations and suggest corrective actions for review by the technical advisory panel, of which UNFPA is also a member. An independent review of the internal controls for Atlas will be conducted based on this process. UNFPA, UNDP and UNOPS are finalizing the terms of reference for the review.

25. **In paragraph 156, UNFPA agreed with the Board's recommendation to compile, approve and disseminate an overall internal control framework to all staff that covers all modules of the Atlas system as a matter of priority.**

UNFPA has completed action on this recommendation.

26. **In paragraph 162, UNFPA agreed with the Board's recommendation, in conjunction with UNDP, to intensify its efforts to resolve the limitations on the general ledger module as a matter of priority.**

UNFPA has completed action on this recommendation.

27. **In paragraph 167, UNFPA agreed with the Board's recommendation to: (a) include appropriate terms and conditions addressing bank reconciliations in the service level agreement with UNDP for treasury services; and (b) closely monitor cash transactions processed by UNDP, on its behalf, until the reconciliations are in place.**

UNFPA has reviewed with UNDP the service level agreement, including terms and conditions addressing bank reconciliations, and expects to finalize the agreement by December 2004. Until the procedures for completing reconciliations are in place, cash transactions processed by UNDP will be monitored closely.

28. **In paragraph 171, UNFPA agreed with the Board's recommendation, in conjunction with UNDP, to take immediate steps to rectify the weakness in the Atlas system that allows changes to payee details after the payment voucher has been approved.**

UNFPA is conducting a risk assessment and alternative solutions are being examined.

29. **In paragraph 174, the Board recommended that UNFPA, in conjunction with UNDP, ensure that payments split between two or more budget holders are approved by both budget controllers before payment takes place.**

UNFPA understands that this feature will be available in the next release of PeopleSoft that is to be implemented in 2005, subject to a final cost evaluation. In the interim, exception reports will be developed to protect against the risk of error. UNFPA has completed a risk assessment and will develop a system that will notify budget holders before payment takes place.

30. **In paragraph 178, the Board recommended that UNFPA, in conjunction with UNDP, expedite its efforts to develop and put into operation all exception/monitoring reports.**

Many such reports are available. Additional reports will be developed once the reports are identified and the corresponding methodology is determined.

31. **In paragraph 181, the Board recommended that UNFPA, in conjunction with UNDP, reconsider activation of the audit trail function, taking into account the benefits and effect it will have on the operations of the Atlas system.**

UNFPA has been advised that activating the audit trail can degrade and severely impact the performance of the system. At present, every data table keeps a record of the person raising the transaction. UNFPA believes this provides sufficient control at this juncture and will monitor the situation.

32. **In paragraph 184, UNFPA agreed with the Board's recommendation that, in conjunction with UNDP, and after assessing financial requirements, it implement firewall security at all country offices according to the recommended minimum standards for desktop and network environments.**

UNFPA and UNDP have jointly issued a request for a proposal to develop firewall security in country offices. Implementation will be done on a case-by-case basis.

33. **In paragraph 187, UNFPA agreed with the Board's recommendation, in conjunction with UNDP, to urgently allocate resources to resolve the shortcomings identified in the Atlas system as soon as possible, in particular those classified as critical.**

UNFPA, in conjunction with UNDP, has initiated a formalized process to address the shortcomings of Atlas, including those classified as critical.

34. **In paragraph 192, UNFPA agreed with the Board's recommendation that it implement procedures to effectively coordinate all leave activities and accurately monitor the recording of leave to ensure that leave transactions are recorded consistently throughout the organization.**

UNFPA has completed action on this recommendation.

35. **In paragraph 198, UNFPA agreed with the Board's recommendation that it: (a) reduce recruitment lead time; and (b) intensify its efforts to implement workforce and succession planning.**

The Recruitment and Staffing Branch, Division for Human Resources, has created a roster of internal and external candidates to place Representatives and Deputy Representatives in a timely manner. The Planning and Policy Branch, Division for Human Resources, will have a succession management framework in place by early 2005. The Division has already initiated longer-term human resources planning to fill positions due to become vacant in 2005. The Division is also scheduling competency assessments for staff due for rotation, in anticipation of their eligibility to fill key positions.

36. **In paragraph 206, UNFPA agreed with the Board's recommendation to: (a) perform yearly performance reviews in a timely manner in order to ensure that relevant and meaningful individual performance plans can be prepared for the following year; (b) revise its timelines for the implementation of the Performance Appraisal Review system; and (c) regularly monitor the performance system to ensure compliance with established deadlines.**

UNFPA has completed action on this recommendation.

37. **In paragraph 212, UNFPA agreed with the Board's recommendation to: (a) issue the contracts for consultants hired under ALDs prior to the commencement of work; (b) properly retain all contracts; and (c) maintain a current list of all ALDs.**

UNFPA has completed action on this recommendation.

38. **In paragraph 214, UNFPA agreed with the Board's recommendation to enforce compliance with all applicable guidelines for Special Service Agreements in respect of performance and attendance.**

UNFPA has completed action on this recommendation.

39. **In paragraph 216, UNFPA agreed with the Board's recommendation to obtain and file medical clearance certificates before contracting staff on special service agreements (SSA) as required under the guidelines.**

UNFPA has completed action on this recommendation.

40. **In paragraph 224, UNFPA agreed with the Board's recommendations to: (a) expedite implementation of the expenditures report detailing all expenses incurred for training purposes, including appropriate ratios; (b) expedite the revision of the terms of reference and mandate of the Training Advisory Committee; (c) include a representative from the Staff Council in the discussions by the Training Advisory Committee on training needs; (d) approve and implement the work plan for 2004 as soon as possible; and (e) communicate the learning strategy throughout the organization and ensure that the Learning and Training Branch has the necessary resources and mandate to implement the strategy effectively.**

UNFPA has completed action on this recommendation.

41. **In paragraph 235, UNFPA agreed with the Board's recommendation to introduce monitoring mechanisms to ensure that project travel falls within the budgeted amount allocated for travel expenditure.**

UNFPA has completed action on this recommendation.

42. **In paragraph 238, UNFPA agreed with the Board's recommendation to prepare travel plans in accordance with its guidelines.**

UNFPA has completed action on this recommendation.

43. **In paragraph 241, the Board recommended that UNFPA enforce compliance with its guidelines with regard to the timely submission of travel requests.**

UNFPA has completed action on this recommendation.

44. **In paragraph 246 the Board recommended that UNFPA: (a) strengthen monitoring of the timely submission of travel claims by utilizing available reports; (b) follow-up on outstanding travel claims to fully recover all travel advances; and (c) to the extent practicable, refrain from authorizing additional travel advances if previous travel claims have not been submitted.**

UNFPA has completed action on this recommendation.

45. **In paragraph 249, UNFPA agreed with the Board's recommendation that it evaluate future travel plans with a view to achieving the desired outcomes using alternative means, including videoconferencing.**

In order to contain travel costs, UNFPA has issued instructions and promoted the use of videoconferencing at headquarters and in the field. UNFPA has increased its efforts to monitor travel, including a more critical assessment of travel plans.

46. **In paragraph 256, UNFPA agreed with the Board's recommendation to test the tools within the Atlas system that are expected to facilitate the implementation of results-based budgeting.**

UNFPA is engaged in discussions to build a prototype, based on initial requirements, with a phased implementation approach.

47. **In paragraph 260, the Board encouraged UNFPA to continue with its development of results-based management and results-based budgeting in coordination with other organizations in order to benefit from best practices and lessons learned.**

UNFPA has prepared an operational plan for the transition to results-based budgeting. The transition is expected to be completed by 2008. A fit gap analysis is envisaged to assess the flexibility of the PeopleSoft budgeting module to accommodate budgeting for results.

48. **In paragraph 264, UNFPA agreed with the Board's recommendation that it: (a) consider the impact of the Board's findings regarding the management of the UNDP Treasury in order to address all risks pertaining to UNFPA; (b) develop compensating controls where necessary; and (c) finalize an updated service-level agreement with UNDP setting out each party's responsibilities.**

UNFPA has had discussions with UNDP on the service level agreement to review the performance indicators and cost drivers of UNDP treasury activities. The service level agreement is expected to be finalized by December 2004.

49. **In paragraph 272, UNFPA agreed with the Board's recommendation to: (a) develop an internal audit charter detailing the purpose, authority and responsibility of the internal audit function; and (b) educate personnel about the functions and positive impact of an internal audit function.**

UNFPA has prepared a draft internal audit charter for consideration by senior management.

50. **In paragraph 279, UNFPA agreed with the Board's recommendation to: (a) expedite the filling of vacant posts in the Division for Oversight Services; and (b) improve its audit coverage on the reliability of the accounting and other data leading to the production of financial statements.**

The Audit Services Branch expects to have a full complement of staff by December 2004. Once this is achieved, a strategy will be developed to implement item (b).

51. **In paragraph 286, UNFPA agreed with the Board's recommendation to: (a) follow up systematically on the implementation of internal audit recommendations; (b) ensure that all recommendations and the follow-up actions are recorded in the audit database; and (c) continue to task the internal audit section with the monitoring of the follow-up action of the geographic units.**

The Audit Services Branch will continue to monitor the implementation of recommendations as well as follow-up action by the geographical divisions regarding the implementation of internal audit recommendations.

52. **In paragraph 295, UNFPA agreed with the Board's recommendation to implement procedures to monitor the issuing of progress reports as required in terms of donor agreements.**

UNFPA has completed action on this recommendation.

53. **In paragraph 299, the Board reiterated its recommendation that UNFPA country offices complete receipt and inspection reports within three weeks of the delivery of goods and services and forward reports to the headquarters Procurement Unit. The Board further recommended that UNFPA headquarters monitor the submission of receiving and inspection reports and follow up on reports not received.**

UNFPA has requested monthly reports on the completion of receipt and inspection reports through the Atlas system so that appropriate action may be taken for those countries that are delinquent in submitting their reports. Technical difficulties are currently being addressed.

54. **In paragraph 303, UNFPA agreed with the Board's recommendation that it implement procedures to: (a) monitor and follow-up the progress of purchase orders; and (b) document the practices regarding the use of an approved suppliers' list in the UNFPA procurement policies in order to ensure consistency and transparency.**

UNFPA has taken action to ensure that all holders of long-term agreements understand and adhere to timely delivery. Procurement officers have been instructed to ensure that all purchase orders have clear delivery dates and that they are regularly monitored to ensure compliance. Upon its transfer to Copenhagen in 2005, the UNFPA Procurement Services Section will designate staff to monitor all delivery dates. UNFPA has revised its procurement procedures, which senior management is reviewing. Currently, the supplementary procurement guidelines contain detailed information on the pre-qualification of suppliers.

55. **In paragraph 306, UNFPA agreed with the Board's recommendation that it obtain the outstanding fraud and presumptive fraud reports from the country offices and take appropriate action to address the outstanding cases reported.**

The Division for Human Resources, with support from the Division for Oversight Services and the Division for Management Services, will take action on cases of outstanding and presumptive fraud. Country offices report all cases of fraud and presumptive fraud to the Finance Branch. Country office staff are reminded that these reports are due by year-end each year.

56. **In paragraph 308, UNFPA agreed with the Board's recommendation to provide full details of all cases of fraud and presumptive fraud.**

The Division for Human Resources provides summary status reports to the UNFPA oversight committee, for information and decision. UNFPA also provides these reports to the Board of Auditors.

57. **In paragraph 314, UNFPA agreed with the Board's recommendation, in conjunction with UNDP and the United Nations Office for Project Services, to intensify its efforts to finalize the fraud prevention strategy and fraud policy statement.**

UNFPA, in partnership with UNDP and UNOPS, has developed a fraud policy statement that will be submitted to senior management for approval.